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The Survival of the Three Original U.S. Television Networks Into the Twenty-First Century as Diverse Broadcast Programming Sources

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The Survival of the Three Original U.S. Television
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The Survival of the Three Original U.S. Television Networks
into the Twenty-First Century
as Diverse Broadcast Program Sources

by Don R. Fitzpatrick

EXECUTIVE SUMMARY

The economic viability of the three original U.S. television networks, ABC, CBS, and NBC, is threatened by emerging competition, excessive regulation, and the proliferation of new broadcasting and telecommunications technologies. This is a significant problem because United States viewers have depended upon free, diverse, broadcast television programming for more than forty years. This programming has traditionally been provided to viewers at no charge, unlike costly pay-per-view, direct broadcast satellite systems, cable television, backyard or rooftop television satellite receiving dishes, video programming via the Regional Bell Operating Companies (Video Dialtone), wide and local area computer networks, or the Internet. Each network's survival depends upon its strategies in the areas of new technologies and political action with regard to regulation. Moreover, the three original networks are healthier than they may appear because the financial takeovers that occurred in 1985-1986 provided each with financial strength and strong corporate leadership.

Results of the Investigation

A thorough review of the literature is undertaken in the thesis. The methodology employed is systems theory, based in the fields of scientific management and organizational communication. An open systems model is developed based on the matrix developed by Krasnow and Longley (1978). A systems analysis specific to ABC, CBS, and NBC is presented in Chapter 3. Highlighted in the systems analysis are regulation/law (FCC's Financial Interest and Syndication Rules); the relationship between motion picture studios (as providers of programs) and the networks; advertisers and their advertising agencies; independent program producers; network affiliate relations/compensation; alternative technologies; and entertainment/news/sports as diverse broadcast network programming for the viewing public.

Conclusions and Recommendations for Future Research

The interaction between the key participants in the core of the open systems analytical model produces authoritative policy outputs as conclusions: availability of the networks' film/videotape archives through the personal computer and the Internet; implementation of digital high definition television; the formation of additional new ABC, CBS, and NBC channels using their archival footage; sale of the networks' programming to the Regional Bell Operating Companies for rebroadcast via Video Dialtone; the networks' joint venture or merger with (or takeover of) an entertainment or electronic communication entity; the networks'

counter-programming their competition and creatively expanding existing programming; employment of more aggressive promotions and advertising campaigns; lobbying of the Congress, the White House, and the FCC for less stringent fin-syn rules; more effective use of alternative technologies; transmission of network programming via DBS; ABC, CBS, and NBC producing more made-for-TV movies, series, and theatrical release motion pictures; and greater expansion "off shore" (internationally).

It is recommended that future research examine the expanding 21st century financial, technological, and regulatory policies of the cellular, photonic, fiber, and digital telecommunications technologies and information enterprises from a cultural, economic, political, and environmental impact as well as the societal factors that influence television viewership in this new environment.

THE SURVIVAL OF THE THREE ORIGINAL U.S TELEVISION NETWORKS
INTO THE TWENTY-FIRST CENTURY
AS DIVERSE BROADCAST PROGRAMMING SOURCES

by

Don R. Fitzpatrick

Submitted in Partial Fulfillment of the
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in the Department of Telecommunications Arts
Jordan College of Fine Arts
of Butler University

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CHAPTER I

INTRODUCTION

Thesis Statement and Hypotheses

The economic viability of the three television networks ABC, CBS, and NBC is threatened by emerging competition, excessive regulation, and the proliferation of new technologies.

- 1) The three original networks are healthier than they may appear because the financial takeovers that occurred in 1985-1986 provided each network with financial strength and strong corporate leadership.
- 2) Each network's survival depends upon its strategies in the areas of new technologies and political action with regard to regulation.

The Significance of the Problem

The significance of investigating this problem is that the United States has traditionally depended upon the three original television networks to deliver diverse programming (news, entertainment, and sports) at no cost to the viewer. This thesis does not include an examination of Fox Broadcasting (with its abbreviated prime time schedule) or the proposed United/Paramount and Warner Brothers Television

networks because they are considered "emerging networks" by Federal Communication Commission rule CFR 47 73.659 and are, thus, exempted as television networks:

No television network, other than an "emerging network" as defined in 73.662(g) of this part, may hold or acquire continuing financial interests or syndication rights in any first-run non-network program or series distributed in the United States unless the network has solely produced that program or series.

ABC, CBS, and NBC are free services for the viewer, unlike direct broadcast satellite systems, backyard or rooftop television satellite receiving dishes, cable television, or video programming via the Internet. Moreover, these three networks have traditionally unified the United States in the form of a national, electronic transmission, information system, much like the nation's interstate highway system, power utility grid system, or air traffic control system. This television network system has created a sense of national community. As Ev Dennis has noted:

We have shared values that are enhanced by three networks. For the same reason we don't favor five hundred languages in the country. It does create a national consensus of values and of what we think is important. (Auletta, 1992, p.570)

This work will investigate how this television network system is threatened, and reach conclusions as to how it can be saved, thus positively influencing information and communication reception for millions of Americans.

The three networks are worth saving because

- They broadcast to the United States public on a free basis.

- They deliver near-universal coverage.
- They are cleared throughout the entire nation, guaranteeing mass audiences that advertisers and motion picture and TV studios need.
- They broadcast public service announcements.
- They insure an outlet for prime time TV programs from motion picture studios, TV studios, and their own in-house production capabilities.
- They are a source for reruns for syndication.
- They provide emergency broadcasts, documentaries, news, weather, entertainment, and sports all on one channel, unlike segregated cable channels.

The financial takeovers and mergers of the three original American television networks raise questions as to how these buyouts and mergers could prove to be both profitable and continue to provide stable long term diverse broadcast programming, the kind of programming that Americans expect to be provided by ABC, CBS, and NBC. Like dinosaurs, endangered species, or the big three Detroit automakers, these television networks are in danger of extinction.

Therefore, the policies to be developed by the networks to preserve these national treasures and to allow them to stay in business, whatever the form of that business, are crucial to investigate from a national communication system perspective.

Review of Related Literature

...And the Lord came down to see the city and the tower, which the sons of men had built. And the Lord said, "Behold, they are one people, and they have all one language; and this is only the beginning of what they will do; and nothing that they propose to do will now be impossible for them. Come, let us go down, and there confuse their language, that they may not understand one another's speech." So the Lord scattered them abroad from there over the face of all the earth, and they left off building the city. Therefore its name was called Babel, because there the Lord confused the language of all the earth; and from there the Lord scattered them abroad over the face of all the earth. (Genesis 11)

In the metaphoric biblical story of the Tower of Babel, God scattered the people of one language from one location in the world to all places on the earth. According to the story, numerous world languages came into existence. From these world languages, the diverse people of the world formed cultures.

Similarly, today, there are numerous television channels available to Americans on cable television as well as other viewing alternatives, where once there was the troika: the three original U.S. television broadcast networks, ABC, CBS, and NBC. In 1944, Allen B. Dumont attempted to put in place a fourth national television network, ABD, named after himself; however, it failed (Sterling and Kittross p. 265).

When the three networks were at their zenith in 1976, nine out of ten of the 85,000,000 United States viewers of evening television shows watched ABC, CBS, or NBC. *TV Guide* listed only fourteen frequencies, and most viewers had only

seven channels. Neither the Disney Channel, Showtime, ESPN, MTV, VH1, Arts & Entertainment, nor Bravo existed in 1976. There was an infant HBO which a few cable systems carried; however, most of today's cable systems didn't exist. There were no satellite-delivered independents such as WGN Chicago, WOR New Jersey, and WTBS Atlanta. Hand-held remote controls were rare. There were no television signal receiving earthstations, only about one hundred independent television stations-not-network affiliated existed, and there were very few consumer-grade video cassette recorders (VCRs). Since the pivotal 1976--when cable television, and satellite-delivered entertainment programming such as Home Box Office came into play--the three national broadcast networks have seen their viewing empire fall from 92 percent in 1976 to 75 percent in 1984, 62 percent in 1991, and below 50 percent on some evenings in that same year (Auletta, 1992, pgs. 25, 27).

As in the story of the Tower of Babel, today's mass electronic communication advances have created numerous and varied television channel "languages" other than the traditional news, sports and entertainment broadcast programming found on the original U.S. three over-the-air television networks ABC, CBS, and NBC. These advances have enabled viewers, equipped with wireless, hand-held remote controls, to "graze" or "surf" through countless competitors

and away from the original networks (Owen and Wildman, 1992 p. 200).

Newly-developed broadcast television and interactive technologies will continue to attract U.S. television audiences. These technological advances have had a negative effect on ABC, CBS, and NBC. Viewers that have long been loyal to the networks are switching to other available channels. Presently, cable television viewers are able to choose from 50 to 100 programming sources in large U.S. cities. In the not-too-distant future, broadband systems (Integrated Services Digital Networks or ISDN) will allow voice, video, and data communication to flow via an optical or photonic fiber channel. Combined with digitalized switching technology, it is projected 500 frequencies will be available (Downing, 1990, p. 31).

Programming will be increasingly delivered to viewers via direct broadcast satellites (DBS) and television signal receiving dishes (TVROs). These dishes will be of two types. The first is the standard large type presently situated in backyards, at television stations, and on building rooftops. The second, the DBS type developed by RCA, is much smaller, an 18-inch receiving dish, able to fit on windowsills or roofs. DBS dishes originate from Hubbard Broadcasting Inc.'s United States Satellite Broadcasting and DirecTv, a subsidiary of General Motors Hughes Electronics (Stern, 1993, p. 42).

A number of other technological advances will draw viewers away from ABC, CBS, and NBC. Wide-spread use of the VCR will continue, as will use of wireless, handheld, remote controls. Computer-based systems include wide and local area computer networks (WANs, LANs), and interactive multimedia computer-video systems for industry, education, and homes. Video-on-demand (VOD) or "video dialtone" services from telephone companies use main frame computers and allow numerous home viewers to dial up the programming of their choice. The potential exists for television programming to be broadcast via personal communications networks (PCN) delivered through the fiber optics lines of the Regional Bell Operating Companies (RBOC) (*The Wall Street Transcripts*, 1993, pgs. 109, 611; Geller, 1991, p. 10).

The three original U.S. television programming entities not only face the challenge of massive competition and new technologies, but also two regulatory constraints imposed by the Federal Communications Commission. These constraints are the financial interest and network syndication rules ("fin-syn") and the prime-time access rule (PTAR). Fin-syn was amended May 18, 1993, "to further promote diversity and competition in the broadcast television program production and syndication marketplace" (Federal Register, Vol. 58, No. 94, Tuesday, May 18, 1993, p. 28927).

Fin-syn prevents the three original networks from having a financial stake in any first-run non-network program or series distributed in the United States unless that program or series is solely produced by that network in-house. Also, the networks are prohibited from obtaining financial rights to and syndicating any other first-run programs or series in the United States (Ibid., p. 37).

PTAR prevents the three big networks' affiliates in the 50 largest television markets from utilizing more than three hours of national network programs, or network reruns other than theatrical motion pictures out of the four hours of prime-time--7-11 P.M. E.T. and P.T., 6-10 P.M. C.T. and M.T. (Eastman, Head, Klein, 1989, p. 215; Creech, 1993, p. 136).

Faced with these competitive, technological, and regulatory challenges, the three traditional, single channel, American television networks must stave off competition without suffering grave corporate financial distress, or without possibly one or more going out of business, and also survive as diverse broadcast programming sources into the twenty-first century. A basis for the three big networks continuing in business has been their purchase by stable parties in the face of unstable influences of severe competition, technological advances, and negative federal regulation. This work will examine the financial approaches utilized to obtain controlling interest in the three original American television networks.

Undertaken is an examination into how the corresponding buyouts, mergers, and takeovers of ABC, CBS, and NBC affected the programming of news, sports, and entertainment to the massive U.S. audience.

This paper sets forth the premise that the networks' future depends upon the following network executives financial prowess: Warren Buffett and Thomas Murphy (ABC); Laurence Tisch (CBS); and Jack Welch and Robert Wright (NBC). These competent financial leaders give their companies' top managers monetary incentives in the form of large salaries and bonuses based on their respective network's successful A.C. Nielsen and AGB Peoplemeter audience television ratings.

In addition, these broadcasting financiers are powerful in dealmaking with independent producers, advertisers, and the major motion picture studios. Also, these captains of broadcasting are very successful in other industries. Thomas Murphy headed up Capital Cities Communications before merging with ABC; Jack Welch is chairman of the board of GE; Warren Buffett is CEO of Berkshire Hathaway; and Laurence Tisch is chairman of Loews Corporation, Lorillard Corporation, and CNA Financial. Thus, these leaders' skills, talents, experience, and abilities will enable the three original over-the-air networks to survive and prosper as diverse broadcast programming sources into the twenty-first century.

The shareholders and viewers will need the financial acumen of such experts. These original television broadcast networks' share of households using television (HUT) has fallen from a 1970 high of 90 percent to a 1990 share of less than 60 percent (Owen and Wildman p. 198).

Much of the writing about American network television is characterized by examinations of audience size, program ratings, programming strategies, viewership characteristics, and causes for network viewership erosion. Fewer sources focus on buy-outs and mergers as related to these subjects.

Highlighting consolidation of operations, diversity of broadcasting experience, and implementation of expert financial strategies, a review of the major business journals and weeklies from 1985 to 1986 shows ABC, CBS, and NBC were acquired by merger or takeover. Capital Cities Communications merged with ABC; in a more hostile manner the Loews Corporation purchased 25% of CBS, a controlling interest in the company; and the General Electric Company bought RCA, which owned NBC. GE then sold RCA to the French company Thomson, but retained NBC. This type of financial maneuvering by GE was also exhibited by Capital Cities and Loews Corporation when they purchased ABC and CBS, respectively (Abrams, 1985; Landro and Kaison, 1985; Richards, 1985; Dreyfus and Rogers, 1985; Abrams and Roberts, 1985; Darby, 1986; Barnes, 1986).

To increase their respective corporations' cash (liquidity) positions, Jack Welch and Robert Wright of General Electric, Thomas Murphy, Daniel Burke, and Warren Buffett of Capital Cities ABC, and Laurence Tisch of Loews Corporation all sold excess non-revenue-making components of their newly purchased television networks. When Tisch became the controlling stockholder on the CBS Board of Directors, he liquidated \$300 million of the \$500 million CBS Inc. employee pension plan, terminated two of the CBS equity managers who managed CBS pension assets, and personally reinvested the CBS Inc. funds in-house (Darby, *Pensions and Investment Age*, March 17, 1986).

Unlike the previous network leaders who were considered to be financially unwise and extravagant to the extreme, this new cadre of millionaires who purchased the three big networks eliminated layers of network employees and greatly contained costs. The takeovers and mergers of the networks have been hard for these displaced workers, both managerial and technical union members. As Michael Nielsen writes:

However, circumstances for the networks and their workers have changed in the 1980s. The proliferation of programming sources such as pay-TV, superstations, and stronger independent TV stations has eroded the networks' monopoly power. As the broadcasting and cable industries become increasingly competitive, management seeks ways to relieve themselves of their credentialed labor force through union-busting, subcontracting to freelance employees, and producing programs in states or countries with cheaper labor. (Nielsen, 1989, p. 26)

A key point that made NBC so attractive to Jack Welch was that the GE chairman bought RCA for \$6.2 billion in cash not to acquire RCA, but to acquire NBC, due to Welch's view that RCA subsidiary NBC had no foreign competition (Frank, 1991, p. 410).

J. Fred MacDonald addressed the 1985-1986 financial take-overs of ABC, CBS, and NBC through his focus on declining network audience share. He found that the three over-the-air networks, prior to being merged with or taken-over by other corporate entities, faced expensive lawsuits, a hostile take-over attempt that resulted in reduction of equity through the repurchase of corporate stock, Writers Guild strikes, and draining of assets from overpaying for unrelated communication industries (MacDonald, 1990, pgs. 241-243).

Referring to the network take-overs, Reuven Frank addressed how ABC, CBS, and NBC commanded top prices during the mergers/take-overs, stipulating network cost cutting and higher advertising revenues as rationale behind higher network worth. He further formulates that increased competition led to television advertising being distributed among more frequencies, with resulting network advertising volume increasing (Frank, 1991, p. 409).

Bruce M. Owen and Steven S. Wildman reviewed aspects of the 1985-1986 take-overs of the three major broadcast networks highlighting competition related to news

operations, syndicated programming supplied by independent producers versus programs supplied by ABC, CBS, and NBC, and the number of local independent television stations that are competition for the networks. They state:

The local stations were able to upgrade the quality of their news broadcasts, thereby improving the size and demographic character of their audiences and resulting in greater advertising revenues. In part because local television news has become a better substitute for the network news, CBS, ABC, and NBC news broadcast have experienced declining audiences since about 1980. (Owen and Wildman, 1992, p.177)

The following observation sets forth John Downing's view of the three over-the-air networks continued viewership decline. Downing analyzes television as an institution of cultural and political importance to the American populace. He touches upon cost-cutting methodology employed by ABC, CBS, and NBC's leaders to restructure their networks, and the ongoing occurrence of mergers and acquisitions rampant to the current television industry climate. Referring to the erosion of U.S. viewership of the three networks, he expresses the following:

Over the period 1980-1987 one consumer home in eight was "lost" to the three big networks. In 1988, NBC's chief executive forecast that by the early 1990s, the networks' combined audience share might go as low as 55 percent. All the networks engaged in substantial cost-cutting exercises during the 1980s to deal with actual or envisaged losses. CBS sold its \$2 billion record division to Sony, and also sold off its magazine division (\$650 million) and its textbook division (\$500 million). Capital Cities ABC axed 10 percent of its workforce, and in 1988 NBC announced the sale of all its radio stations.

These are some indications of the major setbacks encountered by network TV. Gone are the days when the

three networks reigned supreme, and dealt with but one telecommunications corporation, AT & T, together enjoying an effectively undisputed hegemony over production and distribution. What happened? (Downing, 1990, pgs. 31, 32)

New technologies and new competitors have an effect on both viewership and the prices paid for over-the-air stations. Fournier and Campbell have addressed the aspect of network affiliation versus independent stations in this ever changing technological arena:

Other things the same, network affiliated stations usually attract larger audiences than independents. For this reason they receive the major portion of advertising revenues and are, in most cases, more desirable than independents. Moreover, with cable system growth following deregulation and other developments providing substitutes for the network's programming, this advantage will be reduced in successive periods.

As additional stations are licensed, audiences become fragmented among viewing options, leaving a smaller profit available for each station. (Fournier and Campbell, 1993, p. 95)

In summary, as this review of the literature shows, the areas of regulation, finance, and technology are key to the networks' survival. The networks remain strong under new leadership, yet they are vulnerable to takeovers from stronger electronic communication entities, competition from newly developing sources of broadcast signal distribution technology, and a regulatory climate in the courts, Congress, and White House that has had a negative impact on ABC, CBS, and NBC.

Methodology

My approach draws upon systems theory, based in the fields of scientific management and organizational communication. In particular, the model developed and discussed herein is based on the model developed by Krasnow and Longley (1978). Chapter 3 presents a systems analysis specific to ABC, CBS, and NBC, elaborating on the model shown in Appendix 2.

This approach was chosen to enable the reader to understand and clearly view the open system process between the core participants in the model: ABC, CBS, and NBC; federal lawmakers and regulators; new broadcast transmission technologies; advertising and program suppliers in Hollywood and New York City; the courts; network affiliates; and the television viewing public. This approach is excellent for observing and concluding policy outputs (as found in this thesis's conclusions):

. . . to retain the integrity of the system and to try to minimize the tendency of the system to degenerate. The ultimate objective of most systems studies has been directed toward a more effective control of component parts of the organization and a consequent more optimal functioning of the system (Banghart, 1969, p. 35).

The analytical open systems model in Appendix 2 illustrates the various channels of communication and interaction between the core broadcast policy constituents. The model specifically states direct lines of interaction and communication. Thus, this matrix highlights the networks' decisions related to broadcast programming,

corporate financial structure, network affiliate relations, and relationship to federal lawmakers and the courts that determines the networks' future and produces policy outputs into the environment.

These policy outputs enter a societal environment that provides ABC, CBS, and NBC a feedback mechanism inherent to open systems. Demands and supports subsequently enter the core model, requiring ABC, CBS, and NBC to be attentive to, adapt to, change, or alter their programming or policies pursuant to this societal environment, thus shaping the three networks' future survival as providers of diverse broadcast programming.

CHAPTER II

THE U.S. ORIGINAL BROADCAST TELEVISION NETWORKS 1985-1986 FINANCIAL MERGERS AND TAKEOVERS

The following discussion elaborates upon a financial/business model (see Appendix 3) that shows the evolution of the three original TV networks from their inception to their present form. These histories and their contribution to the financial viability of these traditional three networks are key to their survival.

Capital Cities Communication/ABC

The following overview analyzes the financial decision making that propelled ABC and Capital Cities Communication to be in the forefront of preeminent electronic communications industries. The American Broadcasting Corporation (ABC) was led by Leonard Goldenson following a 1953 merger. ABC was founded by Edward J. Noble of Lifesavers candy fame, but Goldenson was the dynamo that grew the nearly bankrupt network into an upstart television affiliate system that did battle with the behemoths CBS, founded by William Paley, and NBC, founded by General David Sarnoff. In 1986, the larger ABC Inc. was purchased by a smaller Albany, New York, media and broadcasting company, Capital Cities Communications Inc. (Abrams, 1985).

Capital Cities Communications (Cap Cities), a company known in the broadcasting industry for its corporate cost

cutting, was ruled by chairman and chief executive officer Thomas S. Murphy and president and chief operating officer Daniel B. Burke. The two executives developed the company over a twenty year period into ownership of seven television stations (four being ABC affiliates), AM and FM radio stations, daily newspapers, daily specialty magazines and newspapers, weeklies and shopping guides, and other types of magazines and cable-television systems in different regions of the U.S. (Auletta p. 35).

Murphy was interested in growing his company through acquisitions. In this regard, ABC was high on his potential buy list. Besides being cash rich, ABC had invented, through the genius of Goldenson, the made-for-TV movie and the miniseries, produced by Hollywood studios. The network through the years had attracted a mass audience with such heralded entertainment programs as *Monday Night Football*, *Wide World of Sports*, *Charlie's Angels*, *Dynasty*, *Who's the Boss*, *The Winds of War*, *North and South*, *Roots*, and *Thirty Something*. Capital Cities Communications' earnings were similar to ABC's earnings; however, Cap Cities' \$950 million revenues were around one-quarter less than ABC's. Thomas S. Murphy believed in doing business with friends and not in hostile takeovers, but friendly ones. Murphy approached his Rye, New York, golfing buddy in Goldenson's New York City ABC corporate headquarters to work out a deal for Cap Cities

to purchase ABC. Altogether, it was a friendly exchange (Ibid., p. 37).

After debate over price per share and warrants to existing ABC stockholders, Thomas Murphy and Leonard Goldenson made a deal. Murphy brought in another player to protect against the potential that a newly merged Cap Cities and ABC might be taken over by hostile financial plunderers. This was Warren Buffet, one of the richest Americans, to provide \$517 million in capital. Buffett's company Berkshire Hathaway, purchased 3 million shares or 18% for \$172.50 a share--the largest stake--of the newly formed Cap Cities/ABC (*The Wall Street Journal*, March 19, 1985, p.24). Buffett believed that the acquisition of ABC was a good one for Berkshire Hathaway due to the fact that ABC owned a Federal Communications Commission license. Buffett termed such license as ownership of good will, or an intangible asset. Unlike, for instance, the manufacturing sector, broadcast networks' profits are not regulated, even though the broadcasting industry is regulated. And unlike asset intensive manufacturers, broadcast networks did not, in Buffett's view, demand major inflow of capital reinvestment to stay profitable. Thus, ABC (and CBS and NBC for that matter from their respective buyouts and the cash those buyouts generated for the networks), will have more funds for future acquisitions (Richards, 1985).

Following the merger, Thomas Murphy and Daniel Burke, both adroitly skilled at cost-cutting, implemented cost containment purchasing policies and large scale firings of executives at management heavy ABC. For example, Murphy and Burke at their own Capital Cities Communications Inc., Albany, New York, corporate headquarters had fewer than 40 executives. Cap Cities had no internal legal department, human resources, or public relations departments (Landro and Kaiser, March 19, 1985).

It was no surprise to the media industry that former ABC Chairman Leonard Goldenson's hand-picked president, Frederick S. Pierce, was fired. Expense account usage by rising young ABC executives was curtailed, the whole ABC corporate culture changed from one of bloated spending to a new pattern of lean, almost dietetic cost-consciousness as imposed by the symbolic managers Murphy and Burke and their newly installed Cap Cities corporate cultural change. These managers are considered "symbolic" because they not only control and coordinate the technical organization, but they also "[shape] the symbolic world of organizational values, beliefs, and commitments through the power of rhetoric" (Daniels and Spiker, 1991, pgs.130-131).

Loews Corporation/CBS

The following illuminates the strengths that one financier, Laurence A. Tisch, brings to network broadcasting

at CBS. Tisch's financial and analytical abilities are highlighted in the following passage as a means to keep CBS Inc. solvent and secure from potential long term financial demise. Delineated are Tisch's goals of protecting his financial investment in CBS Inc., how he has positioned this original major U.S. television network to meet the present and future technologies that encourage increased competition, and his lobbying against the unequitable regulatory demands placed on over-the-air broadcasters by Congress, the courts, and the White House.

The fabled Columbia Broadcasting System network, "The Tiffany Network," as it was referred to by CBS founder William Paley as well as company executives and staff, was in economic trouble during the first half of 1985. CBS Inc. ratings had fallen for its entertainment programming broadcast nationally through its network of affiliates; CBS' corporate profit margins were down; its national advertising market revenues were off; and the network's chairman, president, and chief executive officer Thomas Wyman was thought to have overpaid to purchase Ziff Corporation's group of magazines (Barnes, 1986, p.22).

Correspondingly, CBS faced numerous potential unwanted hostile takeovers during this early to-mid 1985 timeframe as leveraged buyout or merger experts were crawling out of the woodwork, sensing a quality bargain. Possibly hostile CBS buyout "financial pirates" included arbitrageur Ivan Boesky,

oilman billionaire Marvin Davis, U.S. Senator Jesse Helms, and Cable News Network owner Ted Turner (Auletta, p.144).

Over time, CBS did manage to outgun Boesky, Davis, and Helms. The Turner hostile buyout, however, presented the sternest, toughest test. The plan implemented by CBS was for the company to buyback approximately 21% of its 29.8 million common stock shares for \$40 each and pay \$110 for each of the company's senior notes. This was the plan devised by CBS to ward off Turner's \$5.41 billion offer of high-yield, high risk "junk bonds" debt securities and stock (Abrams, 1985).

The downside to CBS's financial defense plan was that it reduced its corporate capital and reduced the number of CBS shares outstanding. This placed the company in a further dangerous position. Someone could better Turner's offer per share to the current CBS stockholders, and then sell off parts of CBS, such as the music or publishing divisions, to reclaim such an exorbitant offer of cash to each CBS shareholder for their shares of CBS stock (Auletta, 1992, p.56).

As time would tell, this someone was financier Laurence A. Tisch. CBS's chairman Thomas Wyman and the CBS board of directors rewarded Tisch with a seat on the CBS board of directors. Acting as a white knight, Tisch, the Chairman of Loews Corporation, the tobacco, insurance, watchmaking and hotel company, engineered the purchase of 25% of CBS stock

(approximately 6 million shares) by Loews, thus allowing the media giant to deflect the Ted Turner potential takeover.

Tisch gave assurances to the CBS board that Loews Corporation would not purchase more than 25% of CBS Inc. outstanding shares. While it was true that Tisch wanted CBS to remain independent--he truly believed that CBS was a national treasure to invest in for the long haul; that the CBS network served in the role of a "public utility", immune from foreign competition--his own financial acumen saw that his Loews Corporation purchasing the majority of the network's outstanding shares would be extremely rewarding (Ibid., pgs. 51, 57).

CBS at that point was trying valiantly not to merge with any other broadcasting or media company. CBS was founded by Paley in 1928 when he purchased 16 radio stations. The company's board and founder wanted to keep CBS free from being purchased by any other company, and to always maintain its industry role as a superior, quality-oriented, network. William Paley disliked the way Thomas Wyman was running CBS Inc., and personally disliked Wyman, too. This was not difficult to understand given the fact that Wyman forced Paley to resign as chairman in 1983, and also tried to merge CBS Inc. with the Coca Cola Company, known only to eight of the thirteen board members (Auletta, 1992, pgs. 59, 145, 147, 160, 167, 171).

During a five-hour meeting of the 13 member board, Wyman would be asked to resign as president. The reason given for Wyman being asked to resign was his failure to inform all the members of the CBS Inc. board that he was trying to merge CBS with the Coca Cola Company. Tisch had earlier stated to fellow board members that he found it inexcusable that Wyman was unable to profitably run CBS. Tisch would gain the confidence of the board, who installed him as the network's chief executive officer. Upon Tisch's recommendation, the CBS board placed founder William Paley back into the position of CBS chairman (Ibid., p. 182).

Thus, ironically, Tisch would take control of CBS while having originally been invited to save it from Ted Turner's attempted hostile takeover (Ibid., p.57, 59, 179; Dreyfuss and Rogers, 1985).

In summation, one sees that CBS Inc. had been mismanaged by the Wyman presidency. The company was on the verge of being taken over by several potential suitors. The strength of the astute financial management and long term planning abilities of Laurence A. Tisch have positioned CBS Inc. to survive as a diverse broadcast programming source against the onslaught of new technologies and resultant competition, and political regulation.

General Electric Company/NBC

The following outlines the financial reasoning behind the acquisition of the National Broadcasting Corporation by the General Electric Company. The giant Fairfield, Connecticut, financial services, medical equipment, plastics, aircraft turbine engine, electronics, locomotive, and appliance manufacturer, GE, purchased the Radio Corporation of America (RCA) in December, 1985. Not including the Big Three automakers, GE thus became the second largest corporation in America. RCA owned the National Broadcasting Company. Therefore, GE became the owner of NBC around the same time that ABC was bought by Capital Cities Communications Inc. and Loews Corporation bought 25% of CBS (Abrams and Roberts, 1985).

The driving force behind the GE-RCA \$6.3 billion merger was the chairman and chief executive officer of GE, John F. Welch, Jr. "Jack" Welch had earned a Ph.D. in chemical engineering from the University of Illinois and was known to be, like his counterparts Laurence Tisch of Loews Corporation and Thomas Murphy of Capital Cities Communications, a savvy deal maker and an aggressive corporate cost-cutter.

A major reason why Welch and GE wanted to purchase RCA was that NBC had accumulated a vast amount of cash. General Electric wanted this cash, and NBC long-term, in Welch's view, would continue to accumulate great amounts of cash

from advertising time sales. Additionally, as a manufacturer, GE was vulnerable to foreign competition flooding the U.S. market with their goods. The United States government under Ronald Reagan favored a free market economy, thus allowing foreign companies to import their products aggressively to the U.S. market. This had hurt GE, forcing it to close plants and restructure and downsize other American facilities it owned. Thus, while the acquisition of NBC would require GE to implement cost containment and downsizing at the network (the customary pattern for all GE-owned businesses), due to new competitive national cable programming services, the acquisition of NBC was very favorable for GE. This was due to the fact that GE was purchasing a cash rich advertising-based business, not another manufacturing entity that would be at odds with foreign competition (*Broadcasting*, Dec. 16, 1985 p. 44).

RCA was vulnerable to a takeover in 1985. RCA accepted GE's offer of \$66.50 each for RCA's 94.4 million shares. RCA's value when sold and broken apart was \$90.00 dollars a share, while the price of its stock fluctuated on the New York Stock Exchange from \$34.00 to \$49.00 a share in 1985 (Auletta, p. 75).

Because of the GE-RCA merger and because he wanted to return to California, Grant Tinker resigned as chairman and chief executive officer of NBC. Tinker, who prior to leading NBC headed up Mary Tyler Moore Enterprises and was

Moore's husband, decided to move to the Gannett Company to form GTG Entertainment, an \$80 million television production studio along with Gannett Chairman Al Neuharth of *USA Today* newspaper fame. Soon GTG inked a ten-series deal with CBS. (Business Week, October 21, 1988 p. 178).

Tinker and Brandon Tartikoff, the programming head of NBC Entertainment located in Burbank, had brought the network from third to first, with ratings winners such as *Golden Girls*, *ALF*, *The Cosby Show*, *L.A. Law*, *Amen*, *Hill Street Blues*, *Cheers*, *Family Ties*, *Miami Vice*, and *St. Elsewhere* (Auletta, p. 90, 92, 350.)

Fearing that he would lose Brandon Tartikoff at the same time that Tinker left (Tartikoff was rumored to be considering a position as the president of Rupert Murdoch's Twentieth Century Fox Film Corporation), Welch "wooed" Tartikoff and signed him to a lucrative deal to stay with NBC Burbank (*Advertising Age*, March 31, 1986 p.1; Auletta, pgs. 97-98).

Welch proved his renowned reputation as a corporate deal-maker and one who frugally downsized GE holdings when he brought in the former head of GE Financial Services, Robert Wright to put-into-play just those key points as NBC's new president and chief operating officer. Wright, like Welch, was known to be an avid cost containment executive, asking his NBC executives to draw up 5% budget reductions for 1986. This reduction was necessitated by

perceived slower growth in NBC's advertising revenue. Wright was thought to potentially reduce NBC staff levels, based on the Welch legacy of downsizing employees from GE's varied manufacturing industries (Barnes, 1986, p.15).

As a key component to this study, the strategies of these network financial managers, who have built, managed, and directed extremely strong corporations before acquiring the networks, contribute to the strength of the networks and endow them with excellent corporate earnings potential, the ability to expand their broadcasting base, and the insurance of their long-term existence and survival.

CHAPTER III

SYSTEMS ANALYSIS

The open systems model in Appendix 2 details the relationships between the original television networks and corresponding basic system hierarchical elements, subsystems, and environment (Spiker and Daniels, 1991, pgs. 72-75; Krasnow and Longley, 1978, pgs. 94-103). The interactions between the three networks and the participants (graphically depicted by the numbered pathways in the core of the Appendix 2 analytical model) helps ABC, CBS, and NBC form authoritative policy:

[O]utputs productive of [their] own survival and the willingness of participants in a system to act to promote systematic survival are important variables in the analysis of a . . . system. (Krasnow and Longley, 1978, p.99)

The resulting decisions of the three American television networks become policy outputs into the environment and become what Americans view on ABC, CBS, and NBC. Thus, feedback from the viewers in the environment occurs based on the networks' policies such as diverse programming and use of technology. Subsequently, feedback comes back to ABC, CBS, and NBC as inputs located in the model's core in the form of demands for change or support for the networks' output policies.

The model in this thesis depicts an open system, with open communication constantly occurring among the participants in random fashion. System theory is likened

not to machinery, but to the living systems of creatures.

As Spiker and Daniels have stated:

System theory provided a new analogy for the study of organizations and organizational communication--the living organism. While scientific and classical scholars regarded the organization as a machinelike object operated by management control, system theorists stressed the point that organizations are more like living creatures than machines. Organizations experience birth, development, and death. They are dynamic entities that act in purposeful ways. System theory relies on several important concepts in order to explain the organismic characteristics of organizations. These concepts include wholeness, hierarchy, openness, and feedback. (1991, p.71)

The purpose of this chapter is to show how the networks conduct decision-making processes (authoritative outputs) to continue to stay in business as nationally diverse broadcast programming sources; attempt to gain back and retain current viewership; and communicate with the various participants within the analytical core of this systems model.

The systems theory terms stated in this analytical matrix-model are defined in the Glossary in Appendix 1. A point of importance to ABC, CBS, and NBC continuing to survive is the wholeness of an efficient and functional open system as depicted in the model. The health of the outlined network television system theory matrix lies in the maintenance function that puts emphasis on communication between the various related elements and subsystems within the core diagrammed in the Appendix 2 model (Spiker and Daniels, 1991, pgs. 71, 86).

The networks' continued existence and potential future growth also lies in adaptation to the existing environment outside the larger political system that the networks operate within and are a part of. The network's external environment includes viewers and the societal factors that influence viewership.

In systems theory, interaction and communication among ABC, CBS, and NBC and the other core participants as diagrammed in this thesis' analytical model produce authoritative policy outputs by the networks. We now examine the interaction depicted by numbered pathways of communication between the networks and the other core constituents.

Regulation/Law: The Federal Communications Commission and the Financial Interest and Syndication Rules (Pathways 1, 2a, 2b).

The sources of licensing, laws, and regulations that affect ABC, CBS, and NBC are components of the federal government and include the Federal Communications Commission (FCC), the United States Department of Commerce, Congress, the White House, the Department of Justice, and the Courts. The courts offer redress for litigation, appeals, and law review. In the area of antitrust statutes, the Justice Department plays a key role.

As the agency generally responsible for the enforcement of federal laws and with the specific responsibility of deciding what FCC broadcast licensing cases should be

pursued in the courts the Justice Department exerts a strong influence on the FCC. (Krasnow and Longley, 1978, p. 58)

ABC, CBS, and NBC are allowed by the FCC to produce made-for-TV movies, news shows, and miniseries under contract with independent or major Hollywood motion picture and television production studios. However, as Auletta explains, they are

. . . not permitted to produce more than three hours of weekly entertainment programs out of the twenty-two hours of prime time. In 1988, this limit was raised to five hours per network. Once a TV series idea was approved, produced, and scheduled, the network paid a weekly license fee to the studio that produced it. This fee covered about 80 to 90 percent of the cost to produce the show; in return, the network could, over the course of the required four-year contract, air each episode twice. If the series lasted the four years, the studio could renegotiate the license fee--or threaten to yank the hit series and sell it to a competitor. And after four years there would be enough episodes in the bank for the studio to sell reruns to local stations. But under the syndication rule, the networks could not participate in this two-billion-dollar (now three billion-dollar) domestic secondary market, even though they helped conceive the series, financed it, and promoted it into a hit. The aim of the regulation was to make the airwaves available to more players. (Auletta, 1992, p. 31)

Ironically, the corporate entities that receive the largest financial bounty from these rules, and who are not legally bound to follow them, are the powerful cable television industry, independent television stations, and the major motion picture studios, three of the major competitors to ABC, CBS, and NBC.

The FCC is charged with the responsibility of making decisions and policy and promulgating rules related to

scientific and technological radio and television

breakthroughs such as:

- 1) network broadcasting
- 2) the possibility of higher transmitting power for AM stations as well as the emergence of FM broadcasting
- 3) VHF and UHF telecasting (spectrum engineering)
- 4) color television
- 5) cable television
- 6) communications satellites
- 7) citizen band radio (Krasnow and Longley, 1978, p.21)

The FCC often regards such technical matters as secondary to the primary issues of "economic interests vying for control of some segment of the broadcasting market" (*Ibid.*). For example, the movement by the FCC to establish channel frequency locations based on spectrum scarcity has the potential of allowing advertisers to switch from the traditional three networks to other channel frequencies found on cable systems.

Future regulatory issues the FCC will face will be in the areas of narrowcasting versus broadcasting. The FCC will either regulate or choose not to regulate interactive services brought into the home by cable systems, by direct broadcast satellites, or via wide or local area networks.

At the heart of television broadcasting governmental regulations are the financial interest rule and the network syndication rule ("fin-syn" rules). The traditional three television networks and their local affiliates are hampered by these regulations enacted during the early 1970s by the Justice Department. The Justice Department's view at that

time was that the networks controlled the production of prime-time entertainment programming, and thus were near monopolies. Consequently, the big three networks entered into a consent decree with the Justice Department that henceforth forbid the three networks (network syndication rule) to syndicate any programs in the U.S. The decree, however, does allow the three to syndicate their own programs offshore (Eastman, Head, and Klein, 1989, p. 23).

One day hearings to gather testimony on potential repeal of the fin-syn rules took place December 14, 1990. Network and Hollywood executives and independent producers gladly rejoiced in having the opportunity to voice their opinions before the commission (Rosencrans, 1990, p.71).

As Rosencrans observes:

Rather than shifting control away from the few powerful networks to the many independent program suppliers, the beneficiaries of the shift have been the major motion picture studios, whose television divisions have merely replaced the networks as the dominant programming sources. Furthermore, with the rapid development of cable, pay television, pay-per-view and home video, competition for such "premium" programming as major sporting events has skyrocketed, and the networks, prevented from profiting from the syndication market, are becoming unable to match the prices offered by the cable and video companies. Soon these events may be available only for a price, and the public will be forced to pay to view events previously available for free. (Ibid., 1990, p.66)

As reported by MacDonald, Laurence Tisch of CBS confirms this view:

"Make no mistake about it," he warned the senators, "the long term availability of the Super Bowl, the World Series, and the Olympics to all Americans over free television is in serious

jeopardy." He also threatened that if pay TV were not brought under control, networks allowed to compete in the video marketplace, over-the-air networks would have no one left to serve except the poor and socially neglected. "What if we then had a two-tier broadcasting system," Tisch wondered, "with a second-class, free programming service available to the less fortunate who are disproportionately minorities, children, and the aged located heavily in urban ghettos and rural areas?" (1990, p. 266)

Even if the FCC repeals fin-syn and thus aids in an attempt to bring the traditional three TV networks back to market share parity against the myriad of electronic communication competition, the courts could have another say in the matter (Krasnow and Longley, 1978, p.58).

Motion Picture/TV Studios, Advertisers, Advertising Agencies, Independent Producers (Pathways 3, 7)

ABC, CBS and NBC contract with motion picture studios, independent motion picture/television producers such as Bruce Paltrow, Aaron Spelling, or Grant Tinker, or own portions of motion picture studios, such as CBS's one-third share of Tri-Star Pictures or ABC Motion Pictures, to bring broadcast programming in the form of entertainment series and feature movies to the networks for broadcast (Auletta, 1992, pgs. 66, 110). Broadcast programming by the networks becomes an authoritative policy output.

The networks' series are negotiated with Hollywood and New York City producers through what are termed license fees (ibid, p. 111). Advertisers and their advertising agencies are provided an audience by the networks. The better the

ratings of the entertainment series produced the more advertisers are charged by the three-over-the air networks for television broadcast advertising time.

As the networks' direct satellite, computer networks, interactive cable system's frequencies and other modes of alternative distribution become available, motion picture studios, independent program producers, advertisers, and their advertising agencies will increasingly seek them out as means to reach audiences.

Network Affiliate Relations/Compensation (Pathway 4)

ABC, CBS, and NBC exist because of their distribution system, their affiliates. When these affiliates "clear" (see Glossary, Appendix 1) the networks' programming, a huge audience is delivered to advertisers. As Owen and Wildman have indicated:

Even major network affiliates prefer some syndicated programs over programs supplied by the networks. Whenever a network program is available and an affiliate preempts it for a syndicated program, "network coverage" is impaired. "Coverage" refers to the percentage of U.S. television households residing in the markets of network affiliates that "clear" (broadcast) a given episode of a particular program. If each affiliate clears its network's program, each major network can reach over 99 percent of all U.S. television households. (Fox reaches fewer viewers at present.) If affiliates preempt their networks' programs with syndicated alternatives, coverage falls (1992, pgs. 161, 162).

A major point of financial investment and subsequent reduction of the three networks' cash is the huge amount of monetary compensation that the networks pay to their

individual or TV station group affiliates to carry the network's programming. Current thought is that if the vast amount of financial compensation does not continue to be paid by ABC, CBS, and NBC, their affiliate structure will crumble. Their affiliate partners could switch to Fox (as 12 major affiliates did during May, 1994); purchase more independent programming (as opposed to covering ABC, CBS, or NBC programming); or, since they may become affiliated with Fox (as Rupert Murdoch--C.E.O. of Fox Inc. would have it), they could cover Fox programming.

CBS Inc.'s Laurence Tisch, speaking about the present tumultuous times for the three original U.S. television networks, elaborates:

What we're going to do is spend all the money that's necessary to remain the No. 1 network. And our money will be spent on programming because in the long run, that's key to us to remain in first place. (*Electronic Media*, June 6, 1994, p.1)

The Networks' Competition: Alternative Technologies (Pathways 5,6,8,10)

Chapter 2 shows that the 1985-1986 acquisitions, mergers, and buyouts with the resulting changes in corporate leadership and restructured finances have strongly positioned ABC, CBS, and NBC to compete, buyout, takeover, or merge with their competition to combat loss of viewership to that competition. The systems theory model in Appendix 2 (pathway 5) delineates the relationships between ABC, CBS, and NBC and their competing, alternative technological

hardware delivery systems, receiving systems, and recording/switching systems utilized to interpret, monitor, and bring television spectrum signals in the home. These technological advances have hurt viewership ratings for the three big networks' programming fare but also bring the future promise of keeping the networks financially alive via different signal transmission delivery mechanisms and new hardware/software delivery modes:

1. telephone companies (telcos)
2. direct broadcast satellites
3. information superhighway/computer networks/interactivity
4. cable systems
5. videocassette recorders
6. television receive only (TVROs) "earth stations" or "dishes"
7. electronic remote controls

1. **Telephone Companies (TELCOS)**-- Americans may be accustomed to ABC, CBS, and NBC programs, and may ever more rapidly be becoming used to new television frequencies such as "Arts and Entertainment," "Court TV," and "Bravo" found on the cable systems that pass by their homes on the land. However, the future is now when one examines "Video on Demand" VOD), the soon-to-be-available home technology

offered from the Regional Bell Operating Companies (RBOC), the seven companies formed as a result of the breakup of American Telephone and Telegraph by District Court Judge Harold Greene.

Video on Demand (VOD) enables home viewers to bypass their local video rental store and order, for a fee billed in their monthly telephone bill, feature-length motion pictures directly from their RBOC. The technology is much like ordering a home delivered pizza. In this case fiber optic/twisted copper pair transports the computer-generated film into the viewer's home. Advocates of this phenomenon would advise ABC, CBS, and NBC to transport their programming upon demand into the homes of America--and even internationally via satellite. From the telcos' central office, fiber optic lines will branch into copper (twisted pair) lines and enter the home. From computers will come the storage, order filling, and playback capabilities for the home/viewer.

2. **Direct Broadcast Satellites (DBS)**-- Presently ABC, CBS, and NBC are not carried on these specifically dedicated satellites that receive (uplink) the competition's signals and beam (downlink) these signals to earth-based television receive only dishes (TVROs) situated in backyards, on rooftops, or windowsills. These are technological modes of diverse programming signal transmission that will further

erode the three networks' viewership. As Creech (1993) states:

Broadcasters and cablecasters would be hurt economically, since DBS would further erode the existing systems' share of the audience. As audiences of local affiliates continue to fragment, the traditional television networks may expand their role as program producers by distributing their wares on alternate technologies. For example, networks may produce programs for distribution by cable or DBS. (p. 303)

Hubbard Broadcasting, Inc. and GM's Hughes Electronics have satellites designed to be received on the roof, windowsill or even within an attic of a consumer's home. The end user will pay a subscription fee, much like the present day cable bill, to receive specific package programming selections from specifically dedicated satellites.

3. Information Superhighway/Computer

Networks/Interactivity-- According to King, Leibowitz, Donaldson, and Nelson, an avenue for the future distribution of television broadcasting lies in the great broadband telecommunications infrastructure information "highway." Cable television companies and telephone companies will be financially and technically involved in this interactive, digitally compressed, digitally switched, digitally stored electronic highway of the future (King, Leibowitz, Donaldson, and Nelson; *The Wall Street Transcripts*, April 26, 1993).

Personal computing services will bring more information databases (video too) into the home. Nelson elaborates on

the future of the Superhighway as it pertains to infrastructure, commerce, and the technologies of the cable systems:

We could probably outdo one another in the fertility of our imaginations as to what kinds of services could go down that future electronic highway. In essence you're going to have 500 channels, 1000 channels, or really, in an interactive mode with digitally stored video programming, you're going to have an infinite number of channels. And the analogy has been made likening this potential infrastructure revolution to the interstate highway system and how that has affected commerce and society. So these guys are in the midst or in the middle of one of the biggest economic stories of the next 10 or 20 years. I think they've taken a near-term body blow, but our adjusted price/cash flow multiples, when the dust has settled after the price declines of the past few days, based on estimated '94 cash flows--having cut those cash flows by about 15 percent--TCI and TWX are at 8.7 and 9.0 times, respectively. And that's still a pretty good value when you consider the potential payoff. The cable systems business is really a technology play at this point. (*The Wall Street Transcripts*, April 26, 1993, p. 109,611)

4. **Cable Systems**-- A major force in television program distribution and transportation is cable television. This fact notwithstanding, cable television has disenfranchised vast numbers of consumers by disallowing the transportation of certain broadcasters' frequencies. As Geller elaborates:

The cable regulatory model, which is based on access--particularly commercial leased access--has also failed because it has not provided access. As a result, monopoly able operators control scores of television channels into the home. Indeed, the vertical integration of the cable industry recently stifled NBC's effort to establish its own 24-hour news channel, in clear contravention of First Amendment goals. Consumers--not the structure of the cable industry--should determine how many news channels are available. Short-term steps could alleviate the situation somewhat, but the cable regulatory model cannot fully meet First Amendment diversification goals. (Geller, 1991, p.6)

Cable television reaches 60 percent of U.S. television households, has two forms of revenue (advertising and subscription), and receives the programming it distributes off satellite via twisted pair copper cable or fiber optics into the viewing household (Ibid., 1991, p. 8).

As Beth Ellyn Barnes discusses,

Over-the-air television and radio appear to represent the end points of a continuum, with cable television falling between the two. As radio is acknowledged to be a largely narrowcast medium, the similarities between it and cable television would seem to lend support to those who argue that cable television is leading the television medium into an age of narrowcasting. (Barnes, 1990, pgs. iv-v)

5. Video Cassette Recorders (VCRs) -- ABC, CBS, and NBC have seen further viewership erosion as the masses that own VCRs use them to tape and then watch other television broadcast frequencies. Originally the VCR was a way to "time shift" television programming for those who wanted to view programs at more convenient times. The number of homes with VCRs and the number of viewers that use them are huge:

Growth of the VCR was phenomenal, rising from 4 percent of all television households in 1982 to 60 percent in early 1988. By this date, too, 21 percent of all TV homes contained at least two recorders. In large cities, the percentage figures were high: in Los Angeles and San Francisco, 64 percent of the homes had VCRs; for New York City and Chicago the figure was 62 percent; and in Washington, D.C., and Dallas-Fort Worth it was 60 percent. The VCR is now nearly in three out of four homes. And owners used their machines. According to Nielsen figures for the first quarter of 1988, each month the average VCR household made 14.1 recordings and watched 16.9 recordings. During an average week the average household watched recordings for 296 minutes and taped for 179 minutes. Further, VCR owners also rented an average of 2.3 videocassettes per month, and 41 percent had purchased at least one

prerecorded videocassette during the previous year.
(MacDonald, 1990, p.223)

Furthermore, as related by Warner and Buchman (1993), "In 1992, more than 75 percent of all television households in the United States had at least one VCR (p.170). Additionally, Nielsen Media Research figures show that in American households with video cassette recorders, VCR penetration of the three network's audience share went from 1.1 % in 1980 to 69.7 % in 1990. It is projected that VCR penetration will increase to 75% by 2005 (Krugman and Rust, 1993, pgs. 69, 72).

6. Television Receive Only Dishes (TVROs)-- "Earth stations" or satellite signal receiving "dishes," are expensive but widely used equipment. These worldwide systems displace over-the-air broadcasters' signals due to the fact that owners have available to them a myriad of television frequencies downlinked from stationary satellites situated in geosynchronous orbit 22,000 miles in-space.

The owner of the earth station pays a monthly premium to receive a package of off-satellite programming via their satellite receiver and dish. The programming is vast, and includes such notable stations and services as ESPN, CNN, USA, CBN, MTV, Nickelodeon, The Nashville Network, Lifetime, C-SPAN, The Weather Channel, Headline News, Arts & Entertainment, Home Box Office, Cinemax, Showtime, Bravo, and The Movie Channel. "Superstations" (independent

television stations not-network affiliated) such as WGN-Chicago, WOR-New Jersey-New York City, and the famous WTBS-Atlanta are also widely watched by owners of TVROs.

7. **Electronic Remote Controls**-- Electronic remote controls used to turn on and off television sets, change television frequencies (channels), and control VCRs are used widely today in homes. Even the speed of remote control use influences program selection. The technological capability of the design of television remote controls allow instant "zipping" through channel frequencies and the rapid entering in of specific channel frequencies to instantly change from one frequency to another. Hence ABC, CBS, and NBC programming executives and their staff will need to be more inventive, cautionary, and creative as to how their programs are selected or chosen. Producers will need to fashion and package programs of such interest, either in narrowcasted or broadcasted modes, as to attempt to buoy up ratings.

The FCC sets rates for the telephone companies, issues licensing for telco video dialtone services, regulates how telcos can merge with cablecasters, and regulates the relationship between program producers and telcos (Creech, 1993, p. 299).

The Viewing Public: Entertainment/News/Sports as Diverse Broadcast Network Programming (Pathways 8, 9, 10)

ABC, CBS, and NBC are diverse programming commercial networks with affiliates that broadcast the three networks'

programming sponsored by local and national advertisers. These advertisers utilize the networks because the networks deliver them a vast targeted audience segmented by income, education, and age (Warner and Buchman, 1993, p. 6). The networks are like billboards, placing advertising and programs sequentially to deliver an audience to these advertisers based on national ratings/households using television (HUT).

In 1994 there was great controversy as a result of retransmission consents between the networks' affiliates and cable systems pursuant to the FCC Must-carry rules. Thus, technologically, the advent of new broadcast transmission technologies such as VOD via the telephone companies, DBS, the Information Superhighway/computer networks/computer-based interactivity, and cable systems will place further stress on ABC, CBS, and NBC's established affiliate network. This is due to potential long-term signal transmission/alternative delivery systems competition if the three networks determine it is financially, regulatorily, and technically feasible to use these alternative methods of program distribution.

The current television broadcasting system of local affiliates could be restructured to merge with cablecasters to provide wide and local area data transmission network services for industry and education through the carriage of computing digital information. ABC's, CBS's, and NBC's news

reporting format has developed over a long period of time. The networks and their affiliates will continue to provide news about crime and sensational events, such as the O.J. Simpson trial. This is one of the major services the three networks will continue to provide, and it distinguishes them from PBS. PBS provides news coverage that it believes the public should have; the networks, on the other hand, provide news coverage that they believe the public wants (Auletta, 1992, p. 35-36, 89).

As an example of this premise, for a \$14 million salary per year, CBS succeeded in wooing away David Letterman from NBC:

...CBS' fight for the late-night audience is the kind of action that could determine whether the major TV networks survive into the next century. The Letterman deal is the strongest indicator yet that the networks are reasserting themselves as they emerge from the worst advertising recession in 50 years. Letterman-style bidding wars have been rare in recent years as the three major networks have been preoccupied with cost-cutting. (Harris and Hall, January 14, 1993)

Programming is the key component for ABC, CBS, and NBC to bring mass audiences to the advertisers who want to sell products and services to targeted viewer segments. To continue as diverse broadcast programming sources, ABC, CBS, and NBC must bring audience market share to its advertisers. Without entertainment programming (talk shows, movies, specials, mini-series, soap operas, and game shows, news (including emergency broadcasts), and sports, network

audiences are lost to those frequencies that program what they want.

Entertainment Programming

The main reasons people watch television are to be entertained and informed. Without "hits," people "zap" the channel they are watching to search for another channel's more enticing programming fare. Consequently, the networks must develop a mastery for finding new producers and series developers such as Bruce Partlow and Aaron Spelling to development entertainment programming of the caliber of *Cheers*, *Roseanne*, *Perfect Strangers*, and *Murphy Brown*. Such development will allow the three networks to keep present viewers, gain new viewers and maintain or increase advertising revenues.

Hits are vital to broadcast television entertainment, just as they are in the cinema, theater, and music. A television series can become a hit when the producers capture something of great appeal or interest no one has yet broadcast. When this happens, a network can charge major prices for advertising time because a vast audience has been delivered. The competition has been held at bay in terms of ratings, and, thus, financial revenue is garnered by the network.

Beyond the technologies employed in broadcasting, programming is the cornerstone of network viability.

Michael Eisner (former Paramount executive and now the president of Walt Disney), discovered this while visiting the Consumer Electronics Show in Las Vegas, as related by Auletta:

There he wandered among the exhibits for videocassettes and video discs, giant screens and miniature television sets, hundred-channel cable systems and backyard dishes, car phones and home computers. "Everywhere the call of technology. The music of progress was in the wind," he remembered. Eisner panicked when he realized that his studio, Paramount, was not even on the main exhibition floor. "Somehow, we had missed not only the show, but the boat." Were the studios not part of the brave new world of tomorrow? Then as Eisner walked past the exhibits of the latest technologies he noticed that each was playing movies starring Warren Beatty, John Travolta, or some other American star. None promoted "Fukkatsu No Hi from Japan." The future, Eisner realized, belonged to "the product," the entertainment shows and movies produced mostly by Hollywood. Everything else--the VCR, the cable wire, the local stations, the satellite dish, even the networks--was merely a way of distributing his product (Ibid., 1992, p. 572).

It takes patience and creativity for network programmers of the stature of Brandon Tartikoff and Brandon Stoddard to allow audiences to become aware of quality shows that may become eventual hits and thus increase network rating share. When Nickelodeon launches new programs such as *Roundhouse* and *Who's Afraid of the Dark* for a new generation of viewer and brings back classics such as *The Mary Tyler Moore Show*, *Dragnet*, and *Alfred Hitchcock Presents* to capture old viewers (both Baby Boomers and other generations), it is imperative that the original networks' programmers pull every creative string to lessen market share penetration by cable systems. One such tactic is for

ABC, CBS, and ABC to counter-program Nickelodeon and other frequencies with classics a la the three nights in one week during August 1993 when NBC broadcast three original episodes of *The Fugitive*.

News Programming

The networks' large newsgathering operations and broadcast technologies give them an advantage over their competitors. Owen and Wildman summarize:

In a competitive environment, the substantial fixed cost of newsgathering operations cannot be sustained without multiple broadcast or other vehicles to make the news available to a large audience and to generate sufficient advertising revenues. At the same time, the quality and timeliness of the broadcast vehicles cannot be maintained without the support of the news-gathering organization. Only CBS, NBC, ABC, and CNN can claim to have achieved the large news-gathering operation and broadcast vehicles needed to make national and international television news available to the public. The large investment required to maintain a news organization, to establish a number of different broadcast vehicles, and to arrange for local outlets over which to spread the fixed cost of the operation tends to inhibit entry. (1992, pgs. 173-174)

When the states touched by the Mississippi River, the heart of the nation, flooded as they did in the summer of 1993, Nickelodeon, The Home Shopping Channel, Quality Value Channel, Court TV, and Arts and Entertainment could not send anchors such as CBS' Harry Smith to cover the tragedy. But CNN certainly can, anywhere in the world. Thus, the original three over-the-air networks need to expand and further capitalize their newsgathering capabilities on every

continent to do battle with Ted Turner's CNN. During the 1991 Persian Gulf War, Tom Brokaw of NBC, out of necessity, had to interview CNN's Bernard Shaw. CNN helped CBS News locate their lost correspondent in the Persian Gulf conflict.

As Owen and Wildman further point out:

In part because local television news has become a better substitute for the network news, CBS, ABC, and NBC news broadcasts have experienced declining audiences shares since about 1980. In the late 1980s, the networks began to substitute news programs for entertainment programs. Although news programs draw smaller audiences than do entertainment programs, their cost is less. "Nightline," "60 Minutes," "48 Hours," "Prime Time Live," and other news programs have relatively low incremental costs because they build on the fixed-cost investment of the news division. Moreover, unlike entertainment shows, there is no regulatory ban on network production of news programs. (Ibid., 1992, pg. 177)

Sports Programming

As in entertainment and news programming, sports programming is vital to enhanced revenue for the networks. One of the reasons Michael Jordan has been given the opportunity to play for the Chicago White Sox Birmingham, Alabama, minor league team--his arguable baseball talent notwithstanding--is his potential advertising time-sales revenue to be garnered by local network affiliates, station group owners, and the network owned and operated stations in major U.S. markets.

In sixteen nights of 1994 Winter Olympics broadcast live from Lillehammer, Norway, CBS utilized live video

satellite transmission, videotape editing, camera work, computer graphics, and reporting expertise to entice viewers to watch their network's sports reporting over the competition's programming. Such expertise, experience, and willingness to risk mammoth financial expense helped CBS win the ratings race against ABC, and NBC (*Broadcast & Cable*, April, 18, 1994, p. 17; *Ibid.*, April 25, 1994, p. 30).

The advent of the Fox network, a division of Rupert Murdoch's News Corporation, is the new television broadcaster given the license by the National Football League (previously held by CBS) to broadcast the league's games beginning fall, 1994. Time will tell whether Fox's lavish financial investment will pay off and further erode the advertising revenue of ABC, CBS, and NBC. However, as of June, 1994, due to Fox Inc. broadcasting National Football League games and the resulting advertising revenues, eight CBS affiliates, three ABC affiliates and one NBC affiliate departed the three original U.S. television networks and joined Fox shortly after Fox invested \$500 million in New World Communications. The thought in the industry is that Rupert Murdoch's Fox Broadcasting Network will work similar deals with Cox Enterprises or Group W for their stations (*Electronic Media*, June 6, 1994, pgs. 1, 38).

In summary, this chapter has elaborated upon the pathways of communication and the interdependent

relationships between ABC, CBS, and NBC and the other core participants within the open systems theory model depicted in Appendix 2. The communication and relationship between the three networks and these core participants results in policy outputs by ABC, CBS, and NBC. The survival of ABC, CBS, and NBC lies in these networks working so effectively together with the television broadcasting core participants--as outlined in this chapter--that synergy occurs. As Daniels and Spiker state:

Wholeness means that the effect of elements working in relationship to one another differs from the effect of their isolated, individual actions taken collectively. This effect is sometimes referred to as synergy--a condition in which the whole is greater than the sum of its parts (Daniels and Spiker, 1991, p.71).

To the extent that ABC, CBS, and NBC interact synergistically with the Appendix 2 model's core participants to produce the policy outputs stated in this thesis' Chapter IV, the three original over-the-airwaves networks will survive as diverse broadcast programming sources.

CHAPTER IV

CONCLUSIONS--AUTHORITATIVE POLICY OUPUTS OF THE THREE ORIGINAL U.S. TELEVISION NETWORKS DIVERSE BROADCAST PROGRAMMING SOURCES ANALYTICAL MODEL

The facts are clear that ABC, CBS, and NBC are in a war to prevent further audience erosion. Thomas S. Murphy, Chairman of Capital Cities/ABC states:

Change has become a central fact of life for the telecommunications industry. All three networks are deeply affected by a significant and permanent erosion of audience. Network television, in short, is now a mature business, one which can no longer simply assume continued growth or expansion. This maturity makes us much like other American businesses, with each company's survival contingent on its ability to increase its market share and control its costs. (MacDonald, 1990, p. 243)

Technologically, the networks are to use every means to market and expand their "brands," via the ownership of more channels both domestically and internationally (especially in Europe, Australia, and the Pacific Rim). In regard to federal regulation, these broadcast television networks are to lobby Washington to enable a more level regulatory playing field to exist; financially, the three networks are to buy out the most appropriate electronic communication industries to solidify their viewer brand identification.

Based on the systems analysis research in this thesis, the following authoritative outputs implemented by the networks could insure their survival as diverse programming sources. These policy or decisional outputs, upon being put into place by ABC, CBS, and NBC, will be viewed in the

environment by the consumers of television programming, will undergo feedback, and said feedback will come back to the core participants in the analytical model of the three original U.S. television diverse broadcasting networks as inputs, thus beginning the process once again.

1. Make available through convergence the ability to access ABC, CBS, and NBC programming and the networks' film/videotape archives at the end users multimedia platform personal computer via the Internet, wide area networks, local area networks, and interactive CD ROM.

Personal computer (PC) monitors offer higher resolution than do televisions. Thus, High Definition Television is rapidly needed by the networks to combat excellent PC video. An interactive, multimedia approach similar to Compuserve, Prodigy, and America Online provided by ABC, CBS, or NBC (and taking into account the proper legal copyright fees and royalties) would allow the end-user to subscribe to the network's film/video archives. Users could acquire archival video or film to merge into documents currently being worked on one's personal computer. End-users such as educators, industry, and computer users in the home, would obtain access by purchasing a licensing fee.

An on-line program guide listing upcoming programs could be transmitted via a fiber optics, broadband, common carrier linkage with the nation's seven Regional Bell Operating Companies (RBOC). External marketing/advertising promotion would be required to reclaim a portion of market

share lost to other segmented broadcast frequencies generally found on cable systems.

Laser disks that store and retrieve video information transform the computer into a television and the television into a computer. HDTV, digital sound, and large screen televisions transform the living room into a motion picture theater. Fiber optic cables will further obscure the distinction between the telephone, television, and computer as video is transmitted into the home via telephone lines. The FCC in 1992 authorized Interactive Video Data Service (IVDS). IVDS would allow television viewers to interact with television programming. Viewers could access over-the-air television, cable, pay-per-view, and direct broadcast satellite services. They could also perform electronic banking, home shopping, and video mail activities by using this service. IVDS systems can be provided by cable, fiber optic lines, or over-the-air (Creech, 1993, 299).

The three original U.S. television networks would be wise to enter into any legal agreements with subcontractors of IVDS "programming" or create their own IVDS programming. Thus, the definition of "broadcasting" we may find will be altered to be more aptly called "narrowcasting" or "focuscasting."

If one takes into account hypermedia programming utilizing CD ROM, ABC, CBS, and NBC will become specialists pushing themselves into a very strong position to ably

compete with the "Baby Bells"/"telcos" as these entities become video distribution players. Startup costs of developing data bases, hiring programmers, and software developers/writers would need to be considered. However, when it is considered that Lawrence Tisch "churned" (generated) three billion dollars when he sold off CBS' record and publishing divisions, such capital expenditures to get into the programming/narrowcasting/focuscasting future are exceedingly wise, especially in view of vast advertising revenues that basically only the original three United States television networks receive (as opposed to print, radio, billboard, and, to some extent, cable).

2. The networks are to implement digital high definition television to enhance viewership.

Television has had basically the same resolution for the last 50 years. There is a strong argument for the personal computer (PC) supplanting the television. Many of the videogames, electronic mail, video conferencing, news retrieval, and home shopping services envisioned for interactive television are already being performed through on-line services available to PC users. These are all arguments for the networks to provide programming and data base archival services to PC users. HDTV is a proposed new standard of television signal clarity. The HDTV broadcast signal is reputed to be incredibly lifelike. Julius Barnathan has given us an explanation of the historical

origins of the technology of the radio spectrum and its dissemination via television:

Because the megahertz highway was so congested, the number of broadcast signals received and the quality of the picture was limited. Such technological advances as high-definition television, which produces movie-screen-quality pictures, require more spectrum space than was available. But if these narrow lanes were replaced by fiber-optic cables, which could one day bring thousands of laser signals into homes, or by individual dishes that retrieve direct signals from satellites, then the narrow broadcast lanes might-absent a technological breakthrough-become as obsolete as a country road. (Auletta, 1992, p.73)

Broadcasters would transmit this over-the-air digital signal to their affiliates. HDTV cameras would be used by producers and broadcasters to capture images, editing equipment would fine tune the story/message, the finished package/signal would be sent via over-the-air transmission or by satellite to the viewer who would have a HDTV television in the home to view advertisements, news, sports, and entertainment.

A HDTV standard for cameras and television receivers is being finalized by the various potential manufacturers such as Sony, Matsushita, RCA, and Phillips.

3. **Expand into cable network broadcasting in the U.S. through the formation of alternative network archival library channels.**

Provided by direct broadcast satellite, cable companies, or by on-line computer service--via either twisted cooper pair or fiber optic telephone line--the three networks could develop new archival library channels show-

casing their inventory of present and historical television footage since their formations. This would further expand viewership, necessary for survival of the networks.

4. Sell ABC, CBS, or NBC programming to the seven regional Bell operating companies to serve the vast ancillary markets.

The ROBCs or "Baby Bells" (Ameritech, Bell Atlantic, Bell South, NYNEX, Pacific Telesis, Southwestern Bell, and U.S. West) were formed when District Court Judge Harold Greene broke apart American Telephone and Telegraph in 1984. These companies may now want to get into the cable television business as witnessed by the attempted Bell Atlantic/Telecommunications, Inc. and Cox Enterprises/Southwestern Bell mergers.

Through the ROBCs' rapidly, continually developing fiber optic grid, open architecture expansion, the timing would be right for ABC, CBS, and NBC to transmit programming under broadband common carriage transmissions in consort with the ROBCs through the video dialtone service. Thus the "Baby Bells" could help the three original American television networks survive.

Selling programming to the Baby Bells to be delivered via the telcos' switched system network would be a significant revenue stream. Advertising revenue could be garnered by the telcos. The three major television networks could form a subsidiary company for this very purpose. The

acronym retention of ABC, CBS, or NBC is a key factor in the survival of the image and diverse broadcast programming capabilities of the three original television networks as their programming is being delivered by telephony.

5. Joint venture or merger with (or takeover of) another entertainment or communication company. Make it a wholly-owned subsidiary. Retain the ABC, CBS, or NBC acronym and be the senior member.

The broadcasting communications merger mania that this thesis addresses is continuing as witnessed by the proposed July, 1994 merger between Laurence Tisch's CBS and Barry Diller's Quality Value Channel (QVC). Comcast, a major shareholder in QVC and a major competitor of CBS, has made a counter-offer to QVC stockholders. Increased capital formation will allow the traditional three television networks to remain among the largest financial capital electronic communications related operations. Leonard Goldenson, founder of ABC, has remarked:

The FCC has so deregulated the industry that broadcasters are no longer insulated from unfriendly takeovers. Financial pirates pillaged corporations in the 1980's and the 1990's. Therefore, the Big Three Networks are best to form financial alliances and mergers with friendly broadcasters or communications companies friendly to the needs and the business of ABC, CBS, and NBC to protect the traditional three television networks from being taken over by unfriendly corporate raiders. (Auletta, 1992, p. 38)

6. Counter-program. Be a larger program supplier of continually creative programming.

The original networks' name recognition allows counter-programming to be effective to return viewership to the

original networks. Counter-programming interrupts the flow of the competitors who broadcast via cable systems or the independents that broadcast over the airwaves. This occurs by taking away these competitors' viewers and "parking" them before ABC's, CBS's, and NBC's programs that are of a completely different type and style.

As an example, CBS successfully counter-programmed ABC and NBC for a more mature audience by first broadcasting *60 Minutes*, thus allowing audience flow to *Murder She Wrote*. CBS thus counter-programmed at the same time ABC's and NBC's Sunday night youth and action oriented series, enabling a totally different psychographic profile (see Glossary) to be drawn to CBS (Lewine, Eastman, Adams, 1989, p. 152).

Thus, the ability to produce programming that entices viewers to watch ABC, CBS, and NBC as opposed to the myriad of other frequencies is paramount for the survival of these original three American television networks.

7. **Employ more effective and aggressive advertising, marketing, and promotion to build mass audience and brand recognition.**

The three over-the-air networks must heavily advertise and thus brand market their names and the programming product they make available to the viewing public. The original networks must more aggressively, in a highly repetitive manner, advertise their programming on billboards, via radio spots, sponsorship of civic, charitable, and sporting events, nationally,

internationally, and locally via their already established affiliate network relationships in the 212 Arbitron areas of dominant influence.

Engel, Kollat, and Blackwell have commented regarding advertising and learning theory:

It will be recalled that repetition is a fundamental tenet of learning theory. Most authorities agree that repetition of a persuasive message generally is beneficial. It is argued that preceding advertisements may have made too weak an impression to stimulate much buying interest. Later advertisements, then, can be effective in strengthening established weak impressions. Therefore, repetition can build a continuity of impression in the minds of prospects and strengthen a disposition to think and act favorably toward the advertised brand, product, or store. (Engel, Kollat, and Blackwell, 1973, p. 338)

The original networks must promote on their own frequencies self-serving advertisements more fully announcing their programming to the populace to positively influence viewership. Recently, CBS has formed a national sweepstakes style promotion/marketing venture with K-Mart to "get the word out" about the network's programming to the millions who shop K-Mart and who watch K-Mart/CBS linked advertisements on national/local television and in such advertisements in the print medium.

8. Use, more effectively, on-air promotions of the three over-the-air networks' own programs.

To continue to hold the line of lost viewership, and to attempt to increase market share, the networks must be more aggressive in promoting their own programming. As Owen and Wildman have noted,

Commercial minutes that cannot be sold are filled with public service announcements or network promotional announcements. Network promotions are not merely filler, however; they are crucial to the success of the networks' upcoming programs. The networks' ability to promote their own programs to large audiences is an important ingredient in their continued relative success vis-a-vis their smaller rivals. Sales resulting from heavy promotion similarly explain the success of downstream sales of national motion pictures. (Owen and Wildman, 1992, p.155)

9. Lobby the Congress, the White House and Federal Communications Commission for a more equitable "level playing field" through further financial interest-network syndication rules relaxation.

There is not a level playing field between ABC, CBS, NBC and the cable companies, telephony, and motion picture studios. A saving grace for the original television broadcast networks is heavy lobbying of the Congress, the White House, and the Federal Communications Commission to allow passage of laws and rules more favorable to the original broadcasting networks. In April, 1991, the FCC did allow the networks to produce up to 40 percent of their prime-time programs, allow the networks to engage in partnerships with motion picture studios to syndicate programming in the United States, and to take part in foreign syndication (Auletta, 1992, p. 575). Such lobbying by the National Association of Broadcasters on behalf of the three original broadcast networks asserts the rights of these networks as diverse broadcast programming sources, and would show how competing technologies/existing technologies are violating those rights. This lobbying is to be carried

out in a legal and ethical manner by broadcasters, but needs to be expedited with all possible haste.

In addition, an example of rules that the networks would petition the FCC to overturn so that they would not be at an economic disadvantage to cable, telephony, and direct broadcast satellite--communication entities not subject to these restrictions--would be the elimination of the financial interest and network syndication rules.

Rosencrans states that the motion picture studios are concerned that the three original over-the-airwaves networks will control the television program market:

These rules were relaxed somewhat by the FCC in its 1982 decision *Viacom Int'l, Inc. v. FCC*. The courts ruled that the traditional three television networks could purchase rights in programming that could be sold for use by cable and home video distributors as well as make profits from the merchandising aspects. Proponents of repeal respond that television production has not been dispersed any more widely by the rules: it has merely shifted into the hands of the motion picture studios who monopolize the programming market as much as the networks ever did. (Rosencrans, 1990, pgs. 68, 72)

10. More effectively use emerging technologies and cross linkages via telecommunications sciences/engineering and convergence.

It is effective for the three national television networks to be futuristic by using on-line computer services such as the Internet and interactive bulletin boards. Additionally, programming linkages between premium networks and ABC, CBS, and NBC such as the ABC/ESPN linkage for college football will aid in developing further brand

marketing. This is common, as the big three Detroit automakers have done this quite regularly; i.e, Ford Motor Company/Mitshubishi; Chrysler Corporation/Toyota; General Motors Corporation/Honda.

11. Program network broadcasting on direct broadcast satellites.

With the advent of the direct broadcast satellite programming services provided by United States Satellite Broadcasting and DirecTv, the broadcast television networks have an opportunity to reach yet another audience: those that do not have cable or wish to discontinue its use, those that are not presently receiving over-the-airwaves television, or those that do not have their own TVRO. Again the emphasis is on brand recognition from as many avenues as possible to enable ABC, CBS, and NBC to drive home the message that they are the formidable giants of the electronic communications industry and intend to stay that way by reaching any audience through utilization of new communications transmissions technologies.

12. ABC, CBS, and NBC's Hollywood studios are to produce more made-for-TV movies, TV series, and theatrical release feature motion pictures to compete equally against Hollywood, Florida, European, and Pacific Rim studios.

Producing their own made-for-TV motion pictures, television mini-series, and theatrical release feature motion pictures at their own respective Hollywood studios will save the networks license fees they presently normally

pay to the Hollywood studios, allow them to control their own creative productions in their entirety, and allow the brand recognition factor of their names/acronyms to live for perpetuity (*Ibid.*, 1992, p. 96).

13. Expand even more into the vast international (offshore) telecommunications communications, broadcasting market. Also greater production and distribution of major motion pictures to the offshore market. Transmit via world direct broadcast satellites, telephony, and cable networks.

Europe has stable and established governments.

Developing broadcasting and information services that are driven by advertising revenues would be profitable for ABC, CBS, and NBC offshore of the United States and would provide service to the world market.

The Pacific Rim contains an enormous outreach audience. As outlined during the April, 1994 international convention in Cannes, France, of broadcast television program buyers, sellers, consultants, and dealmakers:

More strategic alliances surfaced between players from around the world, with Nine Network of Australia, Television New Zealand and Canada's Baton Broadcasting announcing the most unusual: a multinational alliance of terrestrial broadcasters to combat the growing threat from cable and satellite. Bruce Gyngell, Nine Networks chairman, described it as a means to provide "mutual support," with the Canadian broadcasters, having already experienced increased competition created by new means of distribution, in a position to advise the others.

Although Gyngell didn't explain how the alliance would operate, a source from one of the three companies said that by joining forces they should be able to secure a better deal when acquiring program rights. If the tactic proves successful, it could set-off a trend of distributors increasingly being squeezed by

multiterritory buyers. Even if it doesn't work, it illustrates that television companies are increasingly "thinking global, acting local." (Amdur and Bell, April 25, 1994, p. 35)

Recommendations for Future Research

Future research could include an examination into the expanding 21st century financial, technological, and regulatory policies of the cellular, photonic, fiber, and digital telecommunications technologies and communications/information enterprises. What is to be their cultural, economic, political, and environmental impact as these enterprises continue to revolutionize and link the societies of the earth? Additionally, future research could explore the societal factors that influence television viewership in this new environment.

Moreover, since the beginning of the research presented in this thesis, there have been rapid and constant successful and unsuccessful mergers, takeovers, and buyouts that are creating global communication entities. During spring 1994, Quality Value Channel failed in its takeover bid for Paramount. In July, 1994, QVC's Barry Diller also failed in his attempt to merge QVC with Laurence Tisch's CBS. As one of this thesis's broadcast networks policy analysis authoritative output, this type of merger could have been one of the ways that the three original U.S. television networks could survive into the twenty-first century as providers of diverse broadcast programming.

Future studies could track subsequent financial maneuvering by electronic communications industries. For example, during September, 1994, NBC's Jack Welch talked with Gerald Levin of Time Warner Inc. about possibly selling the GE owned network to Time Warner. There are rumors that Richard Frank, chairman of Disney Television and Telecommunications Unit is interested in purchasing Capital Cities/ABC Inc. RBOC Bell Atlantic's Chairman and C.E.O. Ray Smith is proposing to give over-the-air broadcasters prime channel locations on his company's video dialtone systems (VDT) (*Broadcasting and Cable*, September, 5, 1994, p. 36; September 12, 1994, p. 34; September 19, 1994, p.10,).

However, while some may view the future for ABC, CBS, and NBC as dismal, other information and entertainment leaders elaborate that the future for the networks and their competitors couldn't be brighter. Gerald Levin, Chairman, President, and C.E.O., Time Warner Inc.; John Malone, President and C.E.O., Tele-Communications, Inc.; and Michael Ovitz, Chairman, Creative Artists Agency, note:

"From an economic point of view, this is clearly the future for our country," says Levin. As America's military-industrial supremacy has waned, the nation is emerging as an information-and-entertainment superpower. "It's a little bit like the advantage Henry Ford had at the turn of the century," Malone points out. "Only America was big enough to justify building mass-production centers for Fords. So, here, in the latter part of the century, our market is the only one large enough to justify building the next Microsoft Windows software, or the next Terminator 2,

Jurassic Park. That gives us, as an exporter, a huge edge."

"This country is poised to set the standards around the world for information and entertainment services," says Ovitz. An America mega-industry has been given exponential technological power, power that could change the way we educate our children, change the way we do business, change our definition of community. So dreams are being dreamed, and plans laid, even though no one is sure exactly how, or how radically, these technological advances will affect the way we live. As Ovitz notes, "A lot of these ideas are just ideas, and no one's been able to find a critical mass or marketplace. Right now CD-ROM is the big word because you can actually sell them to someone." (O'Shaughnessy, 1994, p. 222)

GLOSSARY

The sources for these definitions are as follows:

Daniels, Tom D., and Spiker, Barry K. *Perspectives on Organizational Communication*. 2d. ed. Dubuque, Iowa, Wm. C. Brown, 1991.

Eastman, Susan T., Sydney W. Head, and Lewis Klein. *Broadcast/Cable Programming: Strategies and Practices*. Belmont, CA: Wadsworth Publishing Company, 1989.

Shapiro, Alan. *Modern Corporate Finance*. New York: Macmillan, 1990.

Affiliate. A commercial television station receiving more than ten hours per week of network programming, but not owned by the network.

Arbitrage. Profiting from differences in price when the same asset is traded on two or more markets. This involves buying in the market with the low price and selling in the market with the high price.

Audience Flow. The movement of audiences from one program or time period to another, either on the same station or from one station to another; includes turning sets on and off. Applied to positive flow encouraged by similarity between contiguous programs.

Audience Fragmentation. A phenomenon in which the total audience for a medium is widely distributed across a large number of program services. Cable is said to fragment the total television audience, resulting in a decreased average audience share for each channel.

Broadband Bandwidth. Bandwidths above 3-4 KHz. The number of rf-modulated signal frequencies contained in a designated channel. Telephone bandwidth capacity is 3,000 Hz; AM radio, 10,000 Hz; high-fidelity audiotape, 20,000 Hz; FM radio, 200 KHz; U.S. television, 6 MHz; coaxial cable, 57 MHz; optical fibers, multi GHz.

Clearance. Acceptance of a network program by affiliates for airing; the total number of clearances governs a network's program's potential audience size.

Compensation Incentive. Usually a cash payment by a network or syndicator to encourage program clearance.

Convergence. The disintegration of distinctions between different technologies. In this paper, convergence means the technological marriage of television, telephone, cable systems, motion picture, direct broadcast satellites, and computer in the home.

Counter-programming. Scheduling programs that appeal to contrasting demographic groups.

DBS. Programming from direct broadcast satellites going from satellite to home receiving dishes, bypassing a ground-based distributor such as a broadcast station or cable system.

Dayparts. Portion's of a network's broadcast schedule defined both by time of day and by program content.

Direct Broadcast Satellites. Special satellites intended for redistribution of high-powered television signals to individual subscribers' receiving dishes, requiring only small dishes.

Federal Communications Commission (FCC). The United States government regulatory body that governs the licensing of radio and television stations. "The Commission"--as it is known by broadcasters--makes regulatory rules regarding broadcasting, enforces these rules, and hears cases that involve alleged rule violations.

Federal Trade Commission. An independent regulatory agency (IRA) created by Congress to deal with unfair trade practices by trusts. The FTC regulates advertising to protect against unfair and deceptive advertising. Although it cannot directly fine broadcasters, the FTC can issue cease and desist orders if false and misleading advertising is suspected.

Financial Interest and Syndication Rules (Fin-Syn). FCC regulation prohibiting broadcast networks from producing or having a financial stake in most of the entertainment series they ran, or later to participate in the profits from syndicating reruns of these shows to domestic or overseas outlets.

Households Using Television (HUT). Standard industry term defining viewership as total number of sets turned on in a household during an average quarter hour.

Junk Bond. Bond rated BB or lower by Standard and Poor's and Ba or lower by Moody's.

Leveraged Buyout. Acquisition of a company, usually by its management, in which the buyers borrow against the company's assets, usually requiring subsequent sale of some assets to cover purchase costs.

Maintenance Function. Communication that regulates system processes. Regulation implies that system conditions are maintained within certain desirable or acceptable limits.

Merger. Agreement by the boards of directors of two companies to combine.

Must Carry Rules. These rules require cable systems to carry all local television signals.

Network. An interconnected chain of broadcast television stations that receive programming simultaneously; also refers to the administrative and technical unit that distributes (and may originate) preplanned schedules of programs. A network is any person or entity which offers an interconnected program service on a regular basis for 15 or more hours per week to at least 25 affiliated television licensees in 10 or more States.

Network Compensation. Payments by broadcast networks to affiliated stations for airing network programs and commercials.

NTIA. The telecommunications policy-making and research arm of the government. Established in 1978 as part of the Department of Commerce, the NTIA allocates government uses of the radio spectrum, develops policies that support the development of telecommunications, including radio, television, and cable; and also provides facilities grants to noncommercial broadcasters.

Programming. Television material appropriate to a particular market and a predefined target audience that is scheduled in a strategic manner and tactically distributed through methods and techniques to best reach that target audience.

Psychographics. Descriptive information of the lifestyles of audience members, includes attitudes on religion, family, social issues, interests, hobbies and political opinions.

Rating. Audience measurement unit representing the percent of the potential total audience tuned to a specific program or station for program or time period.

Senior Notes. Unsecured bonds whose claims are paid off before claims of subordinated debt.

Share. A measurement unit for comparing audiences; represents the percentage of total listening or viewing audience (with sets on) tuned to a given station; total shares in a designated area in a given time period equal 100 percent.

Station Group. Parent corporation, owners of several broadcast stations.

Synergy. A condition in which the whole is greater than the sum of its parts.

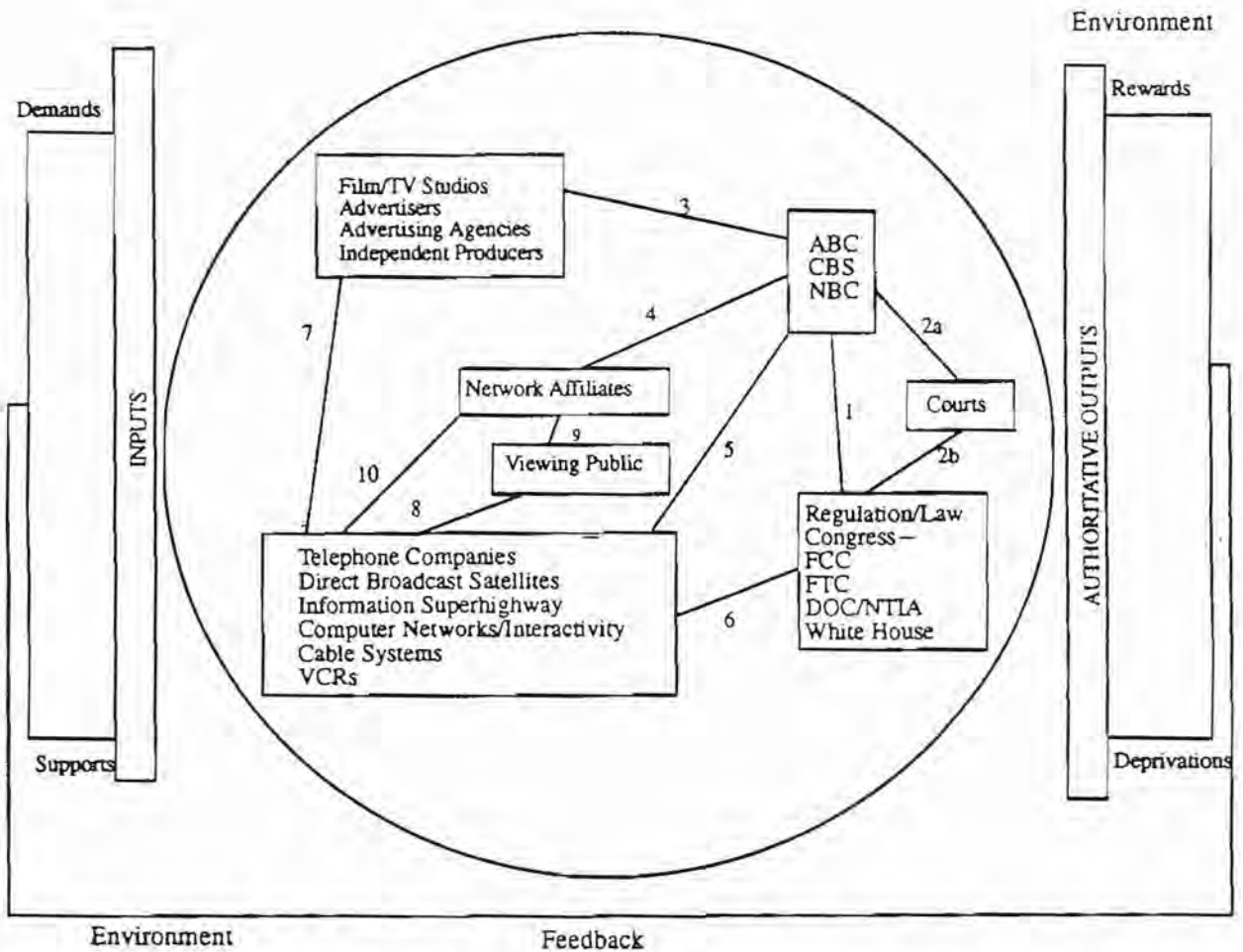
System. A set of elements bound together in interdependent relationships.

Warrant. A security that gives the holder the right to buy a specified number of shares of common stock at a specified price during a designated time period.

Wholeness. The effect of elements working in relationship to one another differs from the effect of their isolated, individual actions taken collectively.

White Knight. A third party who steps in at the target's behest to rescue the target from a hostile takeover bid.

THE THREE ORIGINAL U.S. TELEVISION NETWORKS
AS DIVERSE BROADCAST PROGRAMMING SOURCES:
AN ANALYTICAL MODEL



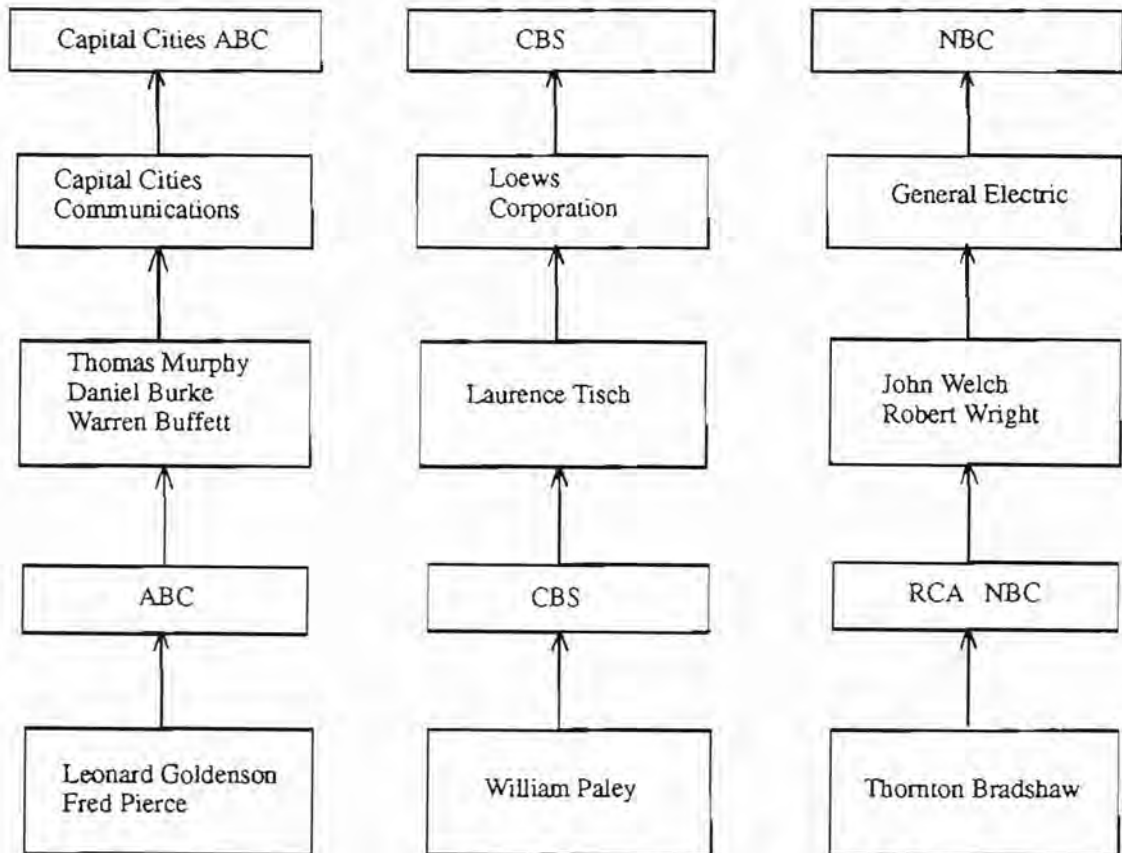
KEY:

- 1 Regulations and licensing
- 2a Litigation; appeals
- 2b Regulation/law case review
- 3 Broadcast programming/advertising
- 4 Compensation
- 5 Competition; loss of viewership; mergers/acquisitions

- 6 Regulations and licensing; rates
- 7 New broadcast programming/advertising
- 8 New broadcast transmission technologies
- 9 Ratings; Households Using Television (HUT)
- 10 Retransmission consents; WAN/LAN

Adapted from *The Politics of Broadcast Regulation* model by Krasnow and Longley (1978).

FINANCIAL MATRIX OF THE 1985-86 BROADCAST
TELEVISION NETWORKS BUYOUTS, MERGERS,
TAKEOVERS, AND PRINCIPAL EXECUTIVES



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